

## Limits to growth? China's rise and its implications for Europe

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# Limits to Growth? China's Rise and its Implications for Europe

*Volker H. Schmidt*

## I

Are there limits to growth? And if yes, what kinds of growth are constrained by what sorts of factors? The present paper focuses on economic growth. Since the 1970s, the assumption that ecological factors impose natural limits on economic growth has gained increasing prominence in scientific circles, based on the premise that the environmental degradation associated with growth will ultimately lead to the collapse of our ecosystems. The only chance to prevent this from happening, or so the proponents of this view argue, is a radical change in economic policies, one that shifts their emphasis from promoting growth at any cost to qualitative concerns such as those outlined in utopias of a »zero option« (Offe 1987) and similar doctrines.

If the assessment that there are definite, soon-to-be-reached limits to growth were correct, then we would probably be doomed. For even if all understood the dangers, it would still seem to be extremely unlikely that the major world powers will exit the market economy, *id est* an economic system premised on perpetual growth, anytime soon. On the contrary, given the remarkable socio-economic developments that followed the introduction of market mechanisms in several newly industrializing nations, especially in China and India, capitalism has gained, rather than lost in global attractiveness during the past few decades; on a world-wide scale, it has in fact only just broken through. With its establishment came the spread of mass wealth and of the (ecologically detrimental) consumption patterns that have long been the privilege of the West to sizeable parts of the non-Western world. The fear of many scientists and intellectuals that the planet might not survive such a spread has received a new urgency since the spread itself is no longer a distant potentiality. Instead, it is now a firm reality, and it is becoming more real every day. So if the fear is well founded, then the world's prospects do not look very good.

Because the scenario to which such a pessimistic view gives rise, while possibly realistic, would be social scientifically sterile – why bother if the world is going bust anyway? –, this paper construes (or rather, simply posits) a somewhat »friendlier«

outlook of the future, one in which technologies become available that render economic growth ecologically sustainable. This is not to dismiss the warnings about coming ecological disasters lightheartedly; I do in fact take them quite seriously. For analytical purposes, it may nevertheless be worthwhile to bracket these concerns momentarily and to assume – counterfactually, as it may turn out – that no limits to growth exist or that the ones that do exist will become manageable. For such an assumption allows us to explore alternative future scenarios, ones that would hardly be worth pursuing if we already knew we have no future. So provided we have a future, then where is the world headed in the 21st century? This is the question I will address in the pages ahead, with special emphasis given to China's rise and its implications for Europe.

## II

To set the stage, let us recall two oft-cited statements by well-known European intellectuals, one referring to past achievements, the other looking into the future, and both, coincidentally, published in the same year, namely 1848. The first is Marx' and Engels' dictum, in the *Communist Manifesto*, that the bourgeoisie – we might prefer to say modern capitalism –, in less than one hundred years, has »created more massive and more colossal productive forces than have all preceding generations together« (Marx/Engels 1967: 85). The second is John Stuart Mill's prediction that England, whose economic development since the late 18th century had far outstripped that of any other European country, was on the verge of a stationary state, one in which more growth was unlikely, and that a genuine potential for further growth existed only in »backward countries« (Mill 1965: 755) – such as Germany or France.

To put these two assessments in perspective, it is worth noting that by the time they were made, the era of modern economic growth, as Simon Kuznets (1973) called it, had only just begun. Angus Maddison dates its onset back to roughly 1820. Before 1820, the Industrial Revolution had affected little more than a relatively confined sector of the British economy, so its impact remained small even on what then clearly was the world's economic growth leader. By today's standards, the Europe of the mid-19th century would be considered poor or at best moderately wealthy. Living levels in many parts of the less developed world are now well above those of England in our observers' lifetime, and England itself enjoys an average per capita income many times that of 1850 (Easterlin 2000). It took the country 50 years to double this income. Yet, given that no country had ever achieved such rapid growth before – Britain's gross domestic product, or GDP, increased by 1.2

per cent annually from 1820 to 1870, 30 times faster than the world average between 1500 and 1820 (Maddison 1995: 62, 20) –, this was doubtless impressive. Marx' and Engels' admiration for capitalism's accomplishments was therefore understandable. But as overwhelming as these must have appeared to the contemporaries, we now know that they reflected only the early stages of a development that, contrary to Mill's expectation, had far from outgrown its potential. Not only did economic growth not come to a halt by the middle of the 19th century, it has in fact enormously accelerated since then – both at the regional and global levels. Thus, income per capita for the world as a whole increased eightfold between 1820 and 1990, but as much as half of this increase occurred during the last 40 of these altogether 170 years (Firebaugh 2003).

Sustained economic growth reached the non-western world other than Japan only after 1950. In the so-called Golden Age from 1950 to 1973, per capita incomes rose significantly in all regions, thereafter they continued to rise only in the West and in Asia, primarily East Asia. However, since 1973 Asia grew more than double the rate of the West. In stark contrast with past experience, Asia has been the fastest growing part of the world economy since 1950, outperforming the rest of the world. In the four and a half centuries from 1500 to 1950, Asia stagnated whilst all other regions progressed (Maddison 2001).

Resurgent Asia was spearheaded by Japan, whose per capita income rose almost ten-fold between 1950 and 1973 and nearly 28-fold between 1820 and 1992. No less impressive was the catching up of the four little tigers South Korea, Taiwan, Hong Kong and Singapore, all of which grew at double-digit rates for three to four decades from the early 1960s onwards and continue to perform well to the present day; beginning in the early 1970s, Malaysia, Thailand and Indonesia followed in their footsteps, but while their achievements are remarkable in their own right, these countries' performance never reached tiger proportions.

China's growth has reached such proportions, and it did so right after the government introduced market reforms in 1978/79; first in the agricultural sector, later in the secondary and tertiary sectors as well. As a result of these reforms, China's increasingly open economy exhibited an average annual growth of 9.6 per cent during the past 28 years. At this rate of growth, a country doubles its income every 7.5 years. That means a child born in China today grows up in a country that is roughly 14 times richer than it was during the youth of his or her parents. If this growth continues unabatedly, as economists believe it can for at least another decade and probably much longer, then China's economy will overtake that of the United States within the next 35 years; when comparing countries on the basis of purchasing power parities (PPP), which reflect the actual buying power of local incomes, this could happen as early as 2017, that is in just ten years from now (*Economist* 2005: 86). Using market exchange rates, the more conservative measure

at which firms trade and repatriate profits, China already replaced Britain as the world's number four in 2005 (*Guardian*, 14 December 2005), and it should be ahead of Germany, the present number three, by 2008 at the latest.

Whether or not China will indeed become the world's premier economy anytime soon, its rise is clearly changing the balance of power in the world economic order. Up until the 1950s, the world economy was totally dominated by Western countries. There had been shifts in economic leadership within the West – with Britain falling behind Germany sometime between 1870 and 1913 and the whole of Western Europe losing its centre status to the United States after World War II (Maddison 2001: 263) –, but outside the Western hemisphere no serious challenger existed anywhere in the world. That began to change with Japan's rise. Between 1950 and 1973, its economy grew at an astounding 9.3 per cent per year (Maddison 2001: 262), a rate of growth unheard of before, and quickly turning the country into an economic superpower, second only to the United States. However, as long as it was just an isolated case, Japan's ascent did not really change the overall weights in the world economy. Nor did the rise of the four little tigers, which set in roughly a decade later and whose growth rates were even more phenomenal, but with a combined population of just over 80 million people, their global impact remained limited, too. China, on the other hand, represents more than one fifth of the world population. If a country of this size takes off economically, then it is bound to shake the world.

It has already begun to do so. Two of the world's four largest economies are now East Asian, and in less than two years, they will be numbers two and three, relegating the foremost European economy to the fourth rank. The gravity of economic power is rapidly shifting eastwards.<sup>1</sup> Since China is not the only newly emerging nation, Europe's relative weight will almost certainly diminish further in a short span of time. Thus, the *Economist* predicts that in twenty years from now, India should be the world's third largest economy, followed, in this order, by Japan, Germany, Britain, Russia, Brazil, France, Indonesia, South Korea and Italy. If this prediction came true, Western Europe would still be a force to be reckoned with, but its position in the world economy would be a far cry from what it was only a

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<sup>1</sup> Western Europe's share of world GDP peaked in the late 19th century and declined steadily thereafter; a century later, it had gone down from one third (33.6 per cent) of the world economy (in 1870) to one fifth (20.6 per cent, in 1998). The share of the West as a whole, however, continued to increase until 1950 (peaking at 56.9 per cent) due to the growing impact of the Western offshoots (North America, Australia and New Zealand). Between 1950 and 1998, this share dropped to 45.7 per cent, while that of Asia more than doubled from 18.5 per cent to 37.2 per cent (Maddison 2001: 263).

half century earlier. Even the combined GDP of its four largest economies would just about match that of India, then the number two in Asia (*Economist* 2005: 86).<sup>2</sup>

Returning to China, its (PPP adjusted) per capita income stood at roughly 7,200 US Dollars in 2005 according to the International Monetary Fund (2006). Compared to the 29,000 US Dollars that the average West European citizen had at his or her disposal in that year, this may not be all that much. And even if China overtook the U.S. as the largest economy in the next 10 to 15 years, its per capita income, while significantly higher than now, would continue to be well below the OECD average. The world would nevertheless have witnessed the emergence of an economic giant of historically unprecedented proportions. And this giant would still have ample scope for further catching up.

### III

To assess China's chances to actualize its potential, let us take a closer look at present Chinese realities. The first thing to note in this respect is that the China of today bears little resemblance to the China of the pre-reform era. Since 1978, the country underwent a fundamental transformation, affecting all spheres of life, and even though this transformation is far from completed, dramatic changes have already taken place. Before 1978, China was one of the poorest countries in the world; now, following the World Bank's definition, it is a lower middle income country that should reach the upper middle income level (pitched at just under PPP US\$ 9,000) within the next few years.<sup>3</sup> And while the growing wealth is spread very unevenly across regions, China no longer has a single province that falls into the United Nations' »low development« category; the whole country is now either in the »high« or »medium« group (Ministry of Foreign Affairs of the People's Republic of China, and the United Nations System in China 2005). This is also reflected in the steady improvement of its Human Development Index (from 0.527 in 1975 to 0.768 in 2004; United Nations Development Programme 2006: 289).

<sup>2</sup> The *Economist's* prediction is based on purchasing power parities. Using exchange rates, the combined GDP of the four countries would still be significantly above that of India in 2026, but below that of China which would then be the world's second largest economy, rather than the largest, as indicated above. The overall trend would nevertheless stay the same.

<sup>3</sup> The IMF estimation for 2007 is PPP 8,500 US Dollars, and the projection for 2008 sees the country's per capita income level at roughly 9,400 US Dollars (International Monetary Fund 2007). Note that China's annual income gains now match (in several cases even surpass) the total per capita incomes of many of the world's poorest countries (see United Nations Development Programme 2006: 283–286).

Prior to 1978, China's economy was predominantly agrarian, with over 70 per cent of the workforce engaged in the production of food and the primary sector accounting for nearly 40 per cent of the GDP. Today, the two figures are 46 per cent and 13 per cent, respectively. During the same time, the secondary sector's share in total employment rose from 17 per cent to 22.5 per cent, while that of the tertiary sector almost tripled from 12 per cent to 31 per cent. Industry's share in the GDP remained relatively stable (hovering around 44 per cent in 1983 compared to 46 per cent presently), but that of services shot up from 22 per cent in 1983 to 41 per cent in 2004. The importance of this shift becomes even more evident when considering that China's total workforce nearly doubled in this period, from 401 million in 1978 to 750 million today. Of the 350 million workers who newly entered the labour market, 280 million, or 80 per cent, were absorbed by the secondary and tertiary sectors (National Bureau of Statistics of China 2005).

The modernization of China's economy was accompanied by a massive urbanization wave. Before China's transition to capitalism, 82 per cent of its population lived in rural areas. Over the past three decades, this share has shrunk to 58 per cent. In absolute numbers, this means that China's urban population more than tripled from 172 million in 1978 to 542 million in 2004, and the United Nations estimate that it will grow to 870 million, or roughly 65 per cent of Chinese, by 2030 (National Bureau of Statistics of China 2005; Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat 2006). Rapid urbanization is also reflected in the increase of cities with a population of one million or more. In 1980, there were 15 such cities in China, by 1999 their number had risen to 37 (Song/Zhang 2002; Zhang 2004; Wu et al. 2007). The building and expansion of these cities, in conjunction with China's huge investment in its physical infrastructure, has led to what is arguably history's biggest construction boom.

The expanding urban landscape is also home to nearly half of China's growing middle class. According to the Chinese Academy of Social Sciences, 247 million people, or 19 per cent of the population, were middle class in 2003, up from 15 per cent in 1999. The study that found these results classified households with assets worth between 18,000 US Dollars and 36,000 US Dollars as middle class (*Reuters News*, 22 June 2005), and according to another study by Asian Demographics, in 2002 some 70 per cent of urban households earned incomes between 2,000 US Dollars and 7,500 US Dollars a year (*Economist*, 5 March 2005).<sup>4</sup> Because of the one-

4 All dollar amounts given are calculated according to the exchange rate method. A study reported by Croll (2006: 313) and using purchasing power parities estimated that by 2003, 2.2 per cent of the Chinese population (those living in some of the most developed cities) had reached income levels equal to 27,700 US Dollars annually, while another 22 per cent enjoyed mid-level incomes of 9,200 US Dollars.

child policy, urban households tend to be small in China – usually three people, who thus have to spend relatively more money than people living in countries with larger households. Assuming the economy retains its current momentum and the middle class continues to grow by one percentage point a year, it may comprise as much as 40 per cent of China's population by 2020, totaling more than 500 million people and surpassing the whole population of the EU-25. Together with the two to three per cent truly rich, this middle class is beginning to define the cultural, socio-economic and political expectations, as well as the lifestyles, of an increasingly self-confident and cosmopolitan citizenry. A sexual revolution is underway, women are becoming more emancipated, grass roots organizations – from charity to environmental protection groups –, are mushrooming everywhere, a vibrant arts scene has developed, and the consumption patterns in the leading cities (on the latter point, see Croll 2006, ch. 4) now resemble those of any big metropolis, eastern or western.

The emergence of China's middle class would not have been possible without fundamental changes in the economy. During the past three decades, millions of new small and medium-sized businesses sprang up throughout the country, and by 2003, the private sector accounted for as much as 59 per cent of the GDP (OECD 2005). Many of China's most successful companies were founded by former peasants whose entrepreneurial spirit and dynamism took the political leadership by complete surprise (Fishman 2004: 74). Like the state-owned enterprises, they started out producing relatively simple everyday necessities and utilizing cheap labour. But even China's manufacturing is now way beyond the stage of purely assembly-driven, low-technology commodity production. The image of the world's workshop or factory is still valid (see Zhang 2006) – if the industries that epitomize it had disappeared, the millions of migrants that leave the farms each year could not find any jobs suiting their skill levels, nor could the masses of workers who have lost theirs' in the fast declining state sector. Yet, this is only part of the story. China is continuously moving up the technology ladder, positioning itself for higher levels of industrialization, and the country keeps flooding the world markets with ever-more advanced goods and services. This creates opportunities for the rapidly expanding middle class – in engineering, banking, merchandising, legal and financial counseling, the provision of medical services, etc. In cities such as Shanghai, this class is virtually creating itself by setting up thousands of new firms that cater to expensive tastes and that prosper because a critical mass of well-to-do customers already exists.

This middle class is also fairly well educated. For a country at its level of development, China had a relatively well-educated workforce when its transition to capitalism began. By 1980, China had achieved an adult literacy rate of 69 per cent, roughly equivalent to that of the East Asian tigers at the time of their economic



takeoff. The groundwork for this success was laid by the communists, who made free basic education compulsory for all children after 1949 (Drèze/Sen 1995). The goal to achieve universal literacy suffered a serious setback when, following the second wave of economic liberalization beginning around 1992, school fees were introduced that many poor families could not afford. Overall, the upward trend in schooling nevertheless continued; by 2003, the primary school enrollment rate had reached close to 99 per cent, and in 2004, the adult literacy rate stood at 91 per cent (United Nations Development Programme 2006: 324). However, these figures mask considerable inter-regional disparities; some rural areas, especially in China's less developed West, continue to have much lower levels of educational attainment (National Bureau of Statistics of China 2005). To address these problems, primary school fees have been abolished for all children in rural areas as of 2007, amongst other measures. For the financing of tertiary education, on the other hand, China increasingly relies on the market mechanism. Tuition charges now make up 26 per cent of the revenues of public universities, nearly twice the level in 1998. Despite this surge in fees, student numbers have increased steadily. In the 1980s, only 2 to 3 per cent of school-leavers went to university, in 2003, the figure was 17 per cent. In 2006, more than four million students graduated from university, up from just over one million five years earlier. The expansion at the doctoral level is even faster than for undergraduates: between 1999 and 2003, nearly 12 times as many doctorates were awarded as in the period from 1982 to 1989 (*Economist*, 10 September 2005; *Spiegel Online*, 28 August 2006).

In addition to building up its human capital stock through educational expansion, another strategic investment that a country needs to make for catching up with the world's economic leaders is in research and development which, being key to indigenous technological innovation, is widely believed to be a prerequisite for moving to the top (Abramovitz 1986; Sachs/McArthur 2002). Following this mantra, China is engaged in a massive effort to build up its research facilities. The central government is investing heavily in a number of select universities, several provincial governments are doing likewise. The models are the American elite universities, the goal is to foster academic excellence, and to achieve it, Chinese scientists with PhDs from the U.S. are aggressively recruited as heads of departments and faculty in the expectation that this will help local institutions emulate best scientific practice and attain world class status. It is no accident that the most widely used ranking of the world's top universities, the Shanghai index, is produced by a Chinese university; it indicates where China presently stands and where to look for guidance on its further way up. To get there, the government commits substantial financial resources. Between 1995 and 2004, China more than doubled its research and development expenditure, whose relative share in the GDP rose from 1 per cent to 1.44 per cent in just four years (National Bureau of Statistics of China 2005).

That is still a lot less than the 2.5 to 3.8 per cent of GDP that the socio-economically most advanced nations are currently spending (Frank 2006), but with annual growth rates of 20 per cent or more, the gap is narrowing quickly. The EU-25 average of 1.9 per cent of GDP will soon be reached, and by 2020 China aims to catch up with the spending levels of globally leading countries. In terms of absolute amounts spent, the country surpassed Japan in 2006, making it the world's second highest investor in research and development after the United States. With an increase of 77 per cent between 1995 and 2004, the country now also has the second largest number of researchers in the world (OECD 2006).

#### IV

To summarize what has been said so far, it seems that China is well prepared to continue its rise – in the economy and beyond. Assuming this rise were indeed to continue, then what would it imply for the rest of the world, especially for Europe?

Demographic developments provide us with a first hint. In 1960, what now is the EU-25 comprised 12 per cent of the world population. By 2002, this share had shrunk to 7 per cent despite a total population growth from 378 million to 453 million people. During the same time, China's share in the world population remained stable at 21 per cent, but the total number of Chinese doubled from 650 million to 1.3 billion people (European Commission 2004). As a result, the population ratio in favor of China that was 2:1 in 1970 is nearly 3:1 now and will increase further as China's population will continue to grow much more rapidly during the next two decades.

It does not take much imagination to predict what this means in terms of world economic power. A China that reached a level of development similar to that of an average OECD member would dwarf any national European economy and, eventually, surpass the economies of the entire West. Historically speaking, this would be nothing new. Up until the first half of the 19th century, China's GDP was higher than that of North America and Western Europe combined. So in this sense, and when looked at through Chinese lenses, its rise to the top would mean little more than that the Middle Empire regained the position it lost after 1840 (Maddison 2001: 117; Qian 2003). In terms of world trends, however, and when viewed from a European perspective, it would mean nothing less than the end of an era that began roughly 500 years ago with the breakthrough to early modernity: the era of European or, for that matter, Western supremacy and hegemony.

Given this significance, it is probably fair to say that European intellectuals and social scientists have thus far not devoted the amount of attention to the process

that it would seem to deserve. 20 years ago, the American sociologist Edward Tiryakian (1985) published an essay in which he suggested that the »epicenter« of modernity, having shifted from Europe across the Atlantic to the United States after World War I, might be headed for yet another ocean crossing in the 21st century, this time moving to the Pacific and with East Asia as the most likely candidate for succeeding North America »at the helm«. Tiryakian included China in the new geographic centre that he visualized for modernity, but did not attribute special weight to this emerging giant. That is understandable. By the time he made his forecast, Japan and the four tigers were well ahead of China in all relevant developmental dimensions. They still are, but today it is easier to see that China could become much like them before long.

The notion of a new centre of modernity obviously implies more than just a shift in the weights of the world economy. It implies a complete reversal of the world order as we know it, a transformation whose impacts could be, to use the words of the United States' National Intelligence Council, »as dramatic as the rise of America in the 20th century« (quoted in *Economist*, 5 March 2005: 3; for a similar assessment, see Shenkar 2006: 42), one in which the West would lose its centre status throughout: in world politics, in military strength, and, possibly, in the areas of science and (popular) culture as well, because the impulses for future global developments would now predominantly emanate from outside its hemisphere. The West, rather than defining the parameters of change for the rest of the world, as it has for several centuries, itself would increasingly become subject to forces that it must react to, but cannot control.

This may be a possible scenario. But is it realistic? One way of looking at this question begins with a personal observation. When raising the scenario's potentiality to European social scientists, the response I get is almost always one of skepticism, if not outright rejection. Raising it to Asian colleagues, on the other hand, evokes a totally different response: usually little more than a shrugging of shoulders. For them, the question is not whether it will come true, but only when and with what kind of a China the world will have to deal once the country has reached the centre position. Given that Asian colleagues tend to be better versed in European affairs than their European counterparts are in those of distant Asia, whose judgements should we trust more?

A rhetorical question does not of course settle the matter. And the only thing we can say with certainty today is that nobody really knows whether the scenario will materialize. For us, it is doubtless hard to conceive that it should. But then – remember John Stuart Mill, whose skepticism has been proven unfounded many times over. For him, the conditions that we more or less take for granted were just as inconceivable as a future that differed radically from the present realities is for us. And if the history of the past two centuries teaches us anything, then this is that

radical, in fact constantly accelerating change is endemic to modernity. So we should not be too surprised if the future held in stock a few surprises.

Reality is, at any rate, moving in the direction of the scenario. In the economy, Europe has already begun to feel the impact: a massive wave of de-industrialization is under way, exerting downward pressure on workers' wages and turning many of the erstwhile heartlands of manufacturing into wastelands; the ongoing »virtualization« of labour markets following the IT revolution is beginning to have similar effects in the tertiary sector, especially in the area of high-quality services involving the design and/or utilization of advanced technology (Aneesh 2006), which is no longer the West's exclusive domain. Reflecting its rise, China was recently given greater voting power in the International Monetary Fund at the cost of Europe, and the framework for a new G7/G8 in which the whole of EU-Europe would be represented by just one voice, is under discussion (*Die Zeit*, 21 September 2006). Politically, China progressed from an insular state to a confident and influential global player. Using the vehicle of state-owned or controlled companies, it is establishing itself in countries with natural resources needed to fuel its economy, especially in Africa, Latin America and the Middle East, where such companies also see strategic opportunities to become multinationals. Itself still a recipient of developmental aid, China helps poor countries build infrastructures or offers interest-free loans without asking questions about good governance and human rights, thus providing dubious regimes with an alternative to a more demanding West and forging new alliances (Kurlantzick 2005; Traub 2006). At the same time, the socio-economic successes that China achieved at home without democratizing are raising growing interest in other parts of the world. If China continues to rise despite – but some argue: because of – the authoritarian character of its political system, then the Western-dominated world models (Meyer et al. 1997) that served as reference points for human development during the past half century might well lose in global attractiveness; in fact, our very understandings of what it means to be modern, of modernity and modern society, could take on a substantially different meaning. Europe, in particular, is also challenged at yet another front. The whole of East Asia is investing heavily in research and development (*Financial Times Asia*, 30 October 2006). As indicated before, China is no exception – and its elites have no doubt that at least some of its universities will be world class within a matter of a few decades. For Europe, which lost its position as the global leader in science to the United States after World War II, this means it now faces serious competition from below as well – and unless it struggles very hard, it might soon lose its present second rank to an

Asia that is determined to turn itself into a knowledge hub producing cutting-edge science and technology (*Economist*, 10 September 2005: 14).<sup>5</sup>

## V

Thus far, I have focused almost exclusively on China's potentials and »assets«, as it were. It is, however, well known that the country faces momentous problems that it will have to tackle if it is to continue its rise. The remainder of the paper is therefore devoted to glancing at some of these problems. Among the foremost of them is probably the explosive growth in social inequality. Between 1981 and 2004, the Gini coefficient for income inequalities rose from 0.288 to 0.465, faster than anywhere else in the world (Wang 2005). Enormous disparities exist not only between different social groups, but also between regions and between rural and urban China.<sup>6</sup> The dismantling of the old socialist social security system left two thirds of the population without access to health care, only a minority of urban dwellers receives an old-age pension, and access to (especially higher than primary level) education has become a lot more unequal in recent years (Zhang/Kanbur 2005); there is no protection whatsoever for the up to 200 million migrant workers who often work without a contract and whom the employers and/or authorities frequently simply ship out when they are no longer needed; peasants are tyrannized by predatory village, town and county governments that often seize their land without paying any compensation; the legal system is weak and under the tutelage of the Communist Party; corruption is rampant; several of the state-controlled banks are technically insolvent, because they have issued far too many non-performing loans; ecological degradation has reached such proportions that the damage it causes now equals the value of China's entire GDP growth; and so forth.

5 The latest world university ranking conducted by the *Times Higher Education Supplement* (6 October 2006) contains just one continental European university (the Parisian Ecole Normale Supérieure), but three East Asian universities (Beijing University, the National University of Singapore, and the University of Tokyo), among its top 20. The only European country that performs well in this ranking is Great Britain (with four universities in the top group). The highest position reached by a German university (Heidelberg) is rank 58.

6 For example, using the Human Development Index of the United Nations as a yardstick, affluent urban Shanghai would rank 24 in the global HDI league (alongside Greece), while poor rural Guizhou Province would find itself alongside Botswana, ranked 131 (United Nations Development Programme 2006: 271). Also, regional growth rates differ substantially. However, even the worst performing province (Qinghai) grew by 5.9 per cent annually between 1978 and 2004 (Chaudhuri/Ravallion 2006), more than Germany during its »miracle growth« phase.

Tens of thousands of – illegal, and hence quite risky – protest demonstrations that are taking place each year across the country testify to the seriousness of the situation. Might it not get out of control? Might China's daunting problems not derail the whole development process by threatening social stability or throwing the country into a deep economic crisis? They might indeed. However, when measuring them against present Western standards and achievements, one should also not forget the enormous surge in inequality and the appalling misery that accompanied the early stages of »socially disembedded« (Polanyi 1957) capitalism in Europe and North America. These problems did not stop the rise of the West, nor did repeated economic crises, because the West eventually found solutions that rendered capitalism socially sustainable: policies that improved the opportunities and that raised the living levels of the less well off, allowing them to share in the growing prosperity. Japan and the four tigers have done likewise.<sup>7</sup> Why should China not be able to repeat the successes of its East Asian forerunners? After all, when the tigers embarked on their route to affluence, they were almost all in desperate conditions (Jones 1993) and many observers viewed them as doomed to fail.

Much of China is still quite poor. However, using the World Bank's 1 US Dollars/day income measure, China lifted 400 million people out of extreme poverty between 1981 and 2002, reducing the incidence of absolute poverty from 49 per cent of the population to 7 per cent in just 20 years (World Bank 2003). Relative poverty remains a huge problem though, and while the central government in Beijing largely left its solution to the market forces until recently, it is now recognizing the need for, and beginning to devise policies aimed at, addressing it directly (Croll 2006). Several relief programs have been implemented since 2001, providing minimum living subsidies, free textbooks to needy students, assistance to villagers and farmers, the training and skills upgrading of the rural poor, and other forms of help. The 2005 budget devoted some funds to the renewal of a rural health insurance scheme. Agricultural taxes that were widely seen as unjust due to their regressive distributional consequences have been abolished as of 2006. The Western Region Development Strategy, launched in 2000, channels significant resources to the development of some of the poorest provinces; and in 2003, a similar project to revitalize the Northeast, once the cradle of China's modern industry, but hard hit by the restructuring of the economy after 1990, got underway. Even environmental protection is now an official public concern.

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7 For a brief overview of East Asian welfare policies and regimes, see Schmidt 2008. It is perhaps worth noting that economic historians believe the working conditions facing Japanese workers during the country's initial phase of industrialization may have been worse than those in Britain and several other European countries in the first half of the 19th century (Landes 1998: 383ff.). They did not stay that way.

Whether the above and several other measures that cannot possibly even be mentioned here will suffice to keep China on the upswing remains to be seen. But whatever the ultimate development, the West, and Europe in particular, had better not bet on China's failure. If we prepared ourselves for a China that eventually proved less powerful than we expected, and perhaps feared, the harm inflicted would be modest at worst. If, on the other hand, we are later taken by surprise because we do not take China seriously enough now, the punishment could be severe. As one Chinese delegate to a business meeting recently held in Hamburg told the perplexed audience: »We are living in a different world, and you should face up to the new realities (...). You may be frustrated, but don't give up, or else you have no future« (*Spiegel Online*, 14 September 2006, translation by the author). No future again – only this time the reference is to economic problems jeopardizing it, not to ecological ones.

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